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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 005563

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DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT  
EUR/CARC, SCA (GALLAGHER, SUMAR)  
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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PREL](#) [RS](#)  
SUBJECT: UKRAINE GAS PRICE AGREEMENT DELAYED BY LATEST  
RUSSIAN-TURKMEN DEAL

REF: MOSCOW 5458

Classified By: Econ MC Eric Schultz for Reasons 1.4 (b/d)

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SUMMARY  
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11. (C) A November 27th agreement between Gazprom and Turkmenistan on a price increase for Turkmen gas has delayed and complicated a deal on 2008 gas prices to Ukraine. Gazprom, which serves as an intermediary for Turkmen gas to Ukraine, will pay Turkmenistan \$130 per thousand cubic meters (mcm) of gas in the first half of 2008, and \$150 per mcm in the second half, up from \$100 in 2007. The agreement between Gazprom and Ukraine was to have been for \$160 per mcm (reftel). End Summary.

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DEAL WITH TURKMENISTAN DELAYS DEAL WITH UKRAINE  
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12. (C) Gazprom announced on November 27th that it has agreed to pay up to 50% more for Turkmen gas in 2008, with the price rising from \$100 per mcm to \$130 per mcm in the first half of the year, and \$150 per mcm in the second half. The relatively steep price hike has complicated gas price negotiations with Ukraine, as most of the gas Russia sells to Ukraine comes directly from Turkmenistan.

13. (C) According to various press reports and our contacts in the Ukrainian Embassy and Gazprom, negotiations with Ukraine were on the verge of conclusion last week, with a price of \$160 per mcm in 2008, and "market prices" by 2011 (reftel). At \$130 per mcm for Turkmen gas, Gazprom and the middlemen RosUkrEnergo (RUE) and UkrHazEnergo (UHE) could still profitably deliver gas to Ukraine for \$160. That may not be the case at \$150 per mcm for Turkmen gas.

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COULD RESULT IN HIGHER UKRAINE PRICE  
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14. (C) Ukrainian Embassy Economic Section First Secretary Oleg Gutsulyak told us November 28th that the Turkmen price increase directly derailed the agreement about which he was so optimistic just last week. He said he no longer believes \$160 will be the price in 2008, but could not speculate how

much higher the price will be. At least one Moscow-based investment house monitoring the situation has calculated that Ukraine will probably have to pay \$180 per mcm. Gutsulyak said he was still hopeful that agreement would be reached well before the end of the year.

15. (C) Gazprom International Affairs Director Ivan Zolotov would not speculate either on the final price to Ukraine. However, he told us November 28th that Ukraine is aware that Gazprom has agreed on a price of \$330 per mcm with Germany and aware of prices to be charged by Turkmenistan. "They will have to deal with it. They will still be paying far less than the market price." Zolotov said he was "quite optimistic" that a deal would be reached with Ukraine before the December 31st deadline and was adamant that there would be no shutoff as in January 2006.

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European Reactions  
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16. (C) Despite the confidence that a deal will be struck, the Europeans seem to be taking precautionary measures. Zolotov noted that "the EU has asked us to place measuring stations on both the entry and exit points of the pipeline through Ukraine" to make sure Ukraine does not siphon away gas intended for Europe, should a deal not be concluded. Furthermore, EC Delegation energy officer Torsten Wollert told us November 28th that he has been asked to remain on duty during the New Year's holidays to deal with any potential disruption. Zolotov, meanwhile, will be Gazprom's international affairs "duty officer" from December 30 to January 8, although he indicated that this was more by chance

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than by design.

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Turkmen Perspective  
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17. (C) From the Turkmen point of view, according to Turkmenistan Embassy Economic Counselor Murat Yazberdiyev, the price increases simply reflect rising world gas prices. He told us November 28th that his government is not concerned with what happens to the gas beyond its borders. "The price Ukraine pays does not interest us. We just sell gas to Gazprom." He added that Turkmenistan would, "of course," like to sell gas directly to consumers at much higher prices, but that given its current lack of alternative export routes, it is stuck with Gazprom as a partner for now.

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COMMENT  
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18. (C) While we still believe a deal will be reached with Ukraine before the end of the year, the price to be paid by Ukraine looks likely to be higher than previously reported.  
End comment.  
BURNS